DOCUMENT RESUME

ED 472 456 HE 035 603

AUTHOR	Heller, Donald E.
TITLE	State Financial Aid and College Access. Research Report.
INSTITUTION	College Entrance Examination Board, New York, NY.
REPORT NO	RR-4
PUB DATE	2003-01-00
NOTE	12p.; Report from the National Dialogue on Student Financial Aid and the Pathways to College Network.
AVAILABLE FROM	For full text: http://www.pathwaystocollege.net/Pub/pub_products_findings.html.
PUB TYPE	Reports - Descriptive (141)
EDRS PRICE	EDRS Price MF01/PC01 Plus Postage.
DESCRIPTORS	*Access to Education; Economic Factors; *Financial Support; *Higher Education; Public Support; *State Aid; *Student Financial Aid; Trend Analysis

ABSTRACT

This report examines recent trends in the provision of state aid and the impact of these trends on college access. It also examines the funding sources for state scholarships, and how the current fiscal crisis facing many states is likely to impact college access and opportunity across the United States. The evidence is fairly conclusive regarding the recent trend toward the substitution of merit for financial need in the awarding of state scholarships. This practice for the most part subsidizes the college-going behavior of those students who were likely to attend college even without the additional subsidy from taxpayers. It is likely to exacerbate, rather than reduce, existing gaps in college attendance between rich and poor and between racial majority and minority students. Policymakers have a choice to make regarding who will receive public assistance to attend college and how that assistance will be provided. The current fiscal crisis facing most states, which is already resulting in double-digit tuition increases in many public institutions, will only make this challenge more critical. (Contains 29 references.) (SLD)

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ED 472 456

State Financial Aid and College Access

Donald E. Heller

Research Report #4

January 2003

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The College Board
National Dialogue On Student Financial Aid

Research Report 4

PATHWAYS to COLLEGE NETWORK

JANUARY 2003

STATE FINANCIAL AID AND COLLEGE ACCESS

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The past decade has seen an important shift in state financial aid programs. While states historically have focused their aid resources on meeting the college access needs of disadvantaged students, the 1990s saw a refocusing of these efforts on a very different population. The popularity and growth of merit aid programs has changed the landscape of college financing for students in many states. These programs have shifted the focus of state aid from promoting college access, to one of rewarding high-achieving students and subsidizing the college-going behavior of wealthier students. This change has profound implications for the condition of educational opportunity in the United States. Other changes in how public resources help subsidize the cost of college for students, detailed below, have also favored wealthier students over their more needy counterparts.

The states play a critical role in the financing of higher education. Over one-third of the total revenue received by public colleges and universities comes from the states, and one-quarter of the total for all institutions, public and private combined, originates from the states (National Center for Education Statistics, 2002a). The state budget process, which is subject to fiscal conditions as well as the priorities established by governors and legislators, determines how much support is allotted directly to public institutions (and in some states, private colleges and universities also), as well as the amount awarded to students through state aid programs. State funding affects the affordability of and access to higher education not just through the direct influence on student aid programs, but also indirectly, because of the relationship between state appropriations and the tuition levels charged by public colleges and universities. In the last recession in the early 1990s as well as in the current slowdown in state revenues, these institutions have responded to declines in state appropriations by increasing tuition levels at rates well in excess of the rate of inflation.

The state role in helping promote educational opportunity is especially important, in light of the gaps in college participation between rich and poor. Last year's report of the federal Advisory Committee on Student Financial Assistance (2001), *Access Denied*, documented the gaps in college participation between these groups that have persisted for thirty years. Even though the states, the federal government, higher education institutions, and private sources have spent billions on financial aid over the last three decades, the Advisory Committee's later report *Empty Promises* (2002) explained that

> These programs have not eliminated income-related gaps in participation and completion rates over time because their level of funding has never permitted a reduction in real, out-of pocket expenses—work and loan burden—for low- and moderate-income families. Put another way, the effective price of attending a four-year college, the net of all federal, state, and institutional need-based grant aid, has risen relentlessly for low- and moderate-income high school graduates and their families over the past quarter century to current record levels (p. 32).

Similar gaps in college participation persist between white youths, and African American, Native American, and Latino students, driven at least in part by the strong correlation between race and income in this country.

This paper examines recent trends in the provision of state aid, and the impact of these trends on college access. It also examines the funding sources for state scholarships, and how the current fiscal crisis facing many states is likely to impact college access and opportunity across the nation.

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State Financial Aid and the Debate over Need Versus Merit

The 1972 reauthorization of the Higher Education Act of 1965 created the State Student Incentive Grant program which provided states with federal funds to match their investments in need-based grants for undergraduate students. While in 1969, 19 states appropriated just under $200 million for these grants, by 1974 this had expanded to 36 states and $423 million. By 1979, every state (including the District of Columbia) reported at least one grant program, and the total appropriated had increased to over $800 million (Heller, 2002a). The growth in state aid continued in the ensuing years, and outpaced the growth in federal support for undergraduates. While spending on federal grants (Pell and Supplementary Education Opportunity) grew 633 percent between the 1975-76 and 2000-01 academic years, state grant spending increased 845 percent.

The federal government, which since the passage of the Higher Education Act of 1965 has been central to promoting equality of postsecondary educational opportunity, is often criticized for letting the Pell Grant program fall behind the rise in college costs over the last two decades. The purchasing power of the Pell has been halved at both public and private institutions. While in 1975-76 the maximum Pell Grant covered approximately one-third of the cost of attendance at a four-year private institution, and three-quarters of the cost of a public four-year institution, by 2000-01 these shares had dropped to 15 percent and 38 percent, respectively (College Board, 2001).

While funding for the Pell Grant program has not kept pace with either the increase in college costs, or the increase in the number of undergraduates attending college, the federal government has kept the structure of the Title IV grant programs focused on college access for needy students. In 1999–2000 (the most recent year for which data are available), 90 percent of Pell Grants were awarded to students from families with income below $40,000 per year, well less than the median family income in the nation of $46,737 (author's calculations from National Center for Education Statistics, 2002b).[1]

Most state need-based scholarship programs use a methodology for awarding grants that is similar in nature to the federal methodology for Title IV funds. Students complete a Free Application for Federal Student Aid, providing information regarding the income and assets of the student, and for dependent students, the student's parents. These data are used to calculate the student's Effective Family Contribution, which when subtracted from the cost of attendance of the institution attended, results in the amount of aid for which the student qualifies. Based on this latter amount, state need-based programs award grants to eligible students.

In contrast to this approach of allowing a student's financial circumstances to determine eligibility for aid, some states—through development of programs that award aid based on some measurement of merit—have allowed their student financing policies to drift in a different direction. Since the 1993 creation of Georgia's Helping Outstanding Students Educationally (HOPE) Scholarship program—the nation's first broad-based state merit aid program—this form of financial assistance to students has spread to a number of other states. Twelve states have implemented broad-based merit scholarship programs that do not use financial need in determining eligibility.[2] These states awarded a combined $863 million in merit awards during the 2000-01 academic year, almost three times the $308 million provided in need-based aid by those states (Heller, 2002b). Nationally, the share of state spending on merit based programs has grown from less than 10 percent of the total (need and merit combined) in 1993 to almost 25 percent in 2000.

The establishment of a merit aid program by itself does not imply a stated intent on the part of state policymakers to shift resources away from needy students. But the impact of these programs accomplishes just that. A recent report released by The Civil Rights Project at Harvard University examined the impact of four of the nation's largest state-run merit scholarship programs (Heller and Marin, 2002). The findings in this report are consistent regarding the impact of each of the programs in Florida, Georgia, Michigan, and New Mexico. Unlike the need-based programs, whose targeted awards provide assistance to students from poorer families who need help to be able to attend college, the merit scholarships are generally awarded to students who were likely to attend college without financial support from public resources. These are predominantly students from the groups who historically have had the highest college-going rates in the country, including white and upper-income students.

1. This figure is for dependent students, who represented 44 percent of all Pell recipients; the corresponding amount for independent students was $30,000 per year.
2. The Georgia HOPE program had an income eligibility cap of $66,000 (more than twice the median income in the state) in its first year of operation. This was raised to $100,000 the second year, and subsequently eliminated.

Some of the key findings in this report include:

- Georgia's HOPE program, which is funded by the state's lottery, is the nation's oldest and largest broad-based merit scholarship program, awarding $300 million in the form of full-tuition grants during the 2000-01 academic year. Researchers Christopher Cornwell and David Mustard of the University of Georgia found that only 4 percent of the state's expenditures on the HOPE program resulted in increased college access in the state; the remaining 96 percent of the funds subsidized existing college-going behavior of students who likely did not need the assistance to be able to afford college.
- New Mexico's Lottery Success Scholarship program is similar to Georgia's in that it is funded by the state's lottery and provides full tuition grants to students in public institutions. Melissa Binder, Philip T. Ganderton, and Kristin Hutchens of the University of New Mexico found that approximately 80 percent of the recipients of these scholarships were from families earning more than $40,000 per year, well above the state's median income of approximately $32,000.
- In both Michigan and Florida, the rate at which scholarships were awarded differed greatly among students from different racial/ethnic groups, and among students from communities of different income levels. For example, while approximately one-third of white students in both states received scholarships, less than 10 percent of African American students in each state were recipients. In both states, students in the 20 percent of schools in the wealthiest communities (as measured by the proportion of students on free or reduced-price lunch in each high school) received scholarships at rates more than twice that of students in the poorest communities.

The research in the report was consistent in concluding that these programs were likely to exacerbate, rather than help eliminate, the gaps in college participation noted earlier. The report concluded that "The studies in this report make it clear that the students least likely to be awarded a merit scholarship come from populations that have traditionally been underrepresented in higher education. This hinders the potential to increase college access among minority and low-income students, especially if these scholarship programs continue to overshadow need-based programs" (Marin, 2002, p. 112).

Purposes of Merit Scholarships

Some of the state merit scholarship programs, including those in Florida, Michigan, and South Carolina, have been promoted as a means of increasing college access in the state. In Michigan, increasing college access is a legislated goal of the program (Michigan Merit Award Scholarship Act, 1999). Former Georgia Governor Zell Miller, in proposing a lottery to voters as a vehicle for funding education, stressed the scholarship component as focusing on college access:

> In an effort to increase the percentage of Georgia high school graduates who attend college, Mr. Miller said he would establish a scholarship fund "to assist any high school student who achieves a grade-point average of a certain level, who enrolls at an accredited college or university in Georgia, and whose family meets a certain income requirement." He did not spell out income or grade-point average requirements (Sherman, 1991, p. A1).

Promoting college access, however, is not the only purpose that states have articulated in forming merit scholarships. Another expressed purpose of merit scholarship programs is to induce students to work harder and achieve more academically. A study conducted by researchers at Georgia State University (Bugler, Henry, and Rubenstein, 1999) found that the proportion of students qualifying for Georgia HOPE has increased steadily since its inception, indicating that students in the state may be performing better academically. The authors discount the effect of grade inflation by demonstrating that increases in average GPAs have mirrored increases in SAT® scores in the state (compared to the increases in the nation as a whole and the other Southern states). Yet they note that because their analysis is based on aggregated data, the increases in both GPAs and SAT scores cannot be ascribed only (or even in part) to the incentive effect of the HOPE scholarships. An important limitation of this study is that the researchers had GPA data for only those students who attended a public college in the state of Georgia; thus, it is likely that the increase in grades they reported may be due at least in part to the HOPE effect of encouraging more high-achieving students to stay in state to attend college, rather than an inducement to work harder (as reported in The Civil Rights Project report).[3] Another study concluded that

3. Another possible cause of the researchers' findings is a shift of more high-achieving students from Georgia private institutions to its public institutions.

the impact of the New Mexico Success Scholarship program on the University of New Mexico was that it "produced a freshman class that was wealthier and less academically prepared" (Binder, Ganderton, and Hutchens, 2002).

A third common goal of these programs is to stanch "brain drain," by offering a stronger inducement for a state's highest-achieving students to attend college in-state, in the hope that they will stay there after graduating from college and contribute to the state economy. While the evidence from Georgia in The Civil Rights Project report appears to indicate that the HOPE Scholarships have been effective in encouraging high-achieving students to stay in state to attend college, there is no evidence that these students have elected to stay and contribute to the state's economy after they graduate from college.

Winston (1999) has estimated the average subsidies received by students at over 2,700 colleges and universities in the nation. He calculated the subsidy by taking educational and general expenditures, plus an implied yearly rental rate for the capital investments of the institution, calculated on a per student basis, and subtracted the average tuition and fees (net of grant aid) paid by each student. He found that the average subsidy nationally in 1995 was $8,700 for students in public institutions and $7,700 for students in private institutions. In Georgia, students at the University of Georgia received an annual subsidy of $7,337 in 1995, and students at Georgia Tech received a subsidy of $12,395 (G. Winston, personal communication).[4] Thus, the total subsidy received by students in these two schools in the latter half of the 1990s would have exceeded $35,000 and $55,000, respectively, if students were fortunate enough to graduate in just four years. For a student who received a HOPE Scholarship for four years, over $10,000 in additional subsidy was provided.

The question that states need to address regarding the economic efficiency of these mechanisms (both the general state appropriation as well as merit scholarships) is what they gain in the form of both pecuniary and nonpecuniary social returns. Little research has been conducted on the status of students after attainment of a bachelor's degree that helps us discern the migratory and labor market patterns of higher-achieving students compared to other students. Without this research, it is impossible to judge the wisdom of the state of Georgia's decision to invest $45,000 to $65,000 to encourage its residents to attend these two colleges. It might be more efficient for Georgia to find ways to encourage high-achieving students to attend college out-of-state, thus forgoing the general subsidy and HOPE Scholarship, and then pay the student a substantial bounty ($30,000? $40,000? $50,000?) to return to the state after completion of the bachelor's degree (and stay for some designated period of time). While such a proposal may seem outlandish at first glance, one could envision a system of tax credits for the individuals as well as their employers, or student loan forgiveness programs, which could operationalize such a system.

Funding of State Merit Scholarship Programs

The regressive impact of state-run merit scholarships is reinforced by those states that have chosen to finance the programs through the use of state lottery revenues.[5] Studies of state lotteries that have analyzed the nature of the implicit tax they impose have been consistent in concluding that the tax burden is very regressive, and in fact, more regressive than any other category of state taxes. Regressive taxes place more of the relative burden for paying them on lower-income taxpayers. Clotfelter and Cook (1991) in their detailed study of state lotteries, concluded that

> The evidence is quite clear that the implicit lottery tax is decidedly regressive. That is to say, an increase in the revenue from lotteries has exactly the same distributional impact as the imposition of or increase in the rate of a similarly regressive tax. ...The fact that participation declines with education appears to support critics' charges that with their relatively high takeout rates, lotteries take advantage of the ignorance of bettors (pp. 227, 230).

The regressive nature of the Georgia lottery was confirmed in a portion of The Civil Rights Project report that examined the HOPE Scholarship program (Cornwell and Mustard, 2002). In the poorest counties in the state, lottery sales per capita as a proportion of income was more than double the rate of the wealthiest counties. This linking of lotteries and scholarships is particularly pernicious, since

4. Because of the selectivity of these two institutions, it is fair to assume that they are the two most likely destinations of the most academically talented students.
5. The nation's two largest state merit programs in Georgia and Florida are financed entirely by lottery revenues; 5 of the 12 state programs are financed at least in part through state lotteries.

the benefits of the lottery playing in Georgia are flowing disproportionately to middle- and higher-income recipients. Economist Phillip Cook noted the ironic nature of using lottery revenues to fund education programs: "An education lottery is an odd link between two government enterprises. One exploits the public ignorance, and the other is supposed to be helping that ignorance" (Selingo, 1999).

Lotteries have also been found to have a negative impact on overall state support for education. While many states have earmarked a portion of lottery revenues to fund both K–12 and higher education, this funding has been found to substitute for general state appropriations for those services: "Ironically, states *without* lotteries actually maintain and increase their education spending more than states *with* lotteries. ... 'regardless of when or where the lottery operated, education spending declined once a state put a lottery into effect' " (Heberling, 2002).

Lotteries are not the only regressive source of funding for state merit scholarships. Both Michigan and Nevada chose to use a portion of their states' share of the national tobacco litigation settlement to fund merit scholarships. Like lotteries, tobacco use is proportionally greater among poorer individuals. Data from the Bureau of Labor Statistics (2001) show that spending on tobacco products is proportionally greatest among poorer households. In 1999, households in the lowest income quintile spent 3.3 percent of their before-tax income on tobacco products; households in the highest quintile spent only 0.3 percent of their income on tobacco.

State Fiscal Conditions and Support for Financial Aid

The constraints in revenue facing most states is likely to impact their ability and willingness to fund financial aid programs. A recent report summed up the current status of economic conditions in the title: "Large decline in April–June 2002 quarter caps terrible fiscal year for states" (Jenny, 2002). Nationally, state tax revenues for that quarter declined 11 percent over the previous year, with declines being recorded in all but five states. Two of the nation's largest states, California and New York, recorded revenue declines of 25 percent and 19 percent, respectively.

The reductions in revenues have been reflected in both state appropriations to higher education institutions, as well as support for financial aid programs. The appropriation cuts (or decline in the growth rate) have led directly to the largest increases in tuition at public institutions in nearly a decade. Double-digit tuition increases are rampant: 17 percent at the University of South Carolina; 21 percent at the University of Kansas; 14 percent at Pennsylvania State University and the University of Pittsburgh; the list is nearly endless. Similar to the last recession a decade ago, the tuition increases hit at a time when students and their families, especially the nation's neediest, are seeing constraints in their own ability to pay for the cost of college.

Some state need-based aid programs have been similarly impacted. In Illinois, which operates the nation's third largest need-based grant program, the appropriation for the Monetary Award Program was reduced $38 million from last year's level, a cut of more than 10 percent. This has resulted in a reduction of over 12,000 grants from the number awarded last year, and in addition, thousands of additional students will see the size of their grants reduced from the amount they received last year (Erickson, 2002). Most of these students will be facing much higher tuition prices, including increases at the University of Illinois of 10 percent for returning students and 20 percent for new students. Some institutions in the state have pledged to make up part of the difference from their own scholarship resources, but it is doubtful that institutional aid can fill the entire gap left by the state.

Some states have managed to maintain a commitment to need-based aid in the face of constrained revenue growth. In Pennsylvania, where appropriations to all but one of the state's public higher education institutions were reduced 3 to 4 percent this year, the appropriation to the nation's fourth largest need-based aid program was increased 4 percent.

A state's commitment to need-based aid, which is a discretionary item in every state budget, is dependent upon the priorities established by the governor and legislators. In contrast, most of the states' broad-based merit scholarships are structured as entitlements; every student who meets the established merit criteria will receive a scholarship in the amount designated by the program. In most of these programs, this is an award equivalent to, or at least pegged to, the tuition level at the public institution attended.[6] Thus, the amount a state has to spend on one of these programs is dependent upon a number of factors, including:

- The number of students who choose to go to college in a year;

6. Most programs provide awards for students attending private institutions that are close to the amount that would be received at the same type of public institution. For details on the program awards, see Heller (2002b).

- The number who meet the merit criteria;
- What institutions they choose to attend;
- The tuition price charged at each institution.

In addition, because all but one of the programs (Michigan) allow students to renew their awards while in college, the funding required is also dependent upon the number of students who stay on in college to work toward a degree, as well as the proportion of these that continue to meet the merit criteria.

Thus, while need-based aid programs are at the mercy of state fiscal conditions and the priorities established by policymakers, the merit programs continue to grow at rates constrained only by the demand for them and the ability of students to meet the merit criteria. Concerns over the funding required for these programs have driven some states, including Florida, Louisiana, and New Mexico, to examine whether eligibility should be tightened. But the popularity of the programs, especially among more politically influential constituents, has largely rebuffed these efforts.

The case of West Virginia highlights this discrepancy. This past year the state implemented the Promise scholarship program, which awards full tuition at any public institution in the state to any student who graduates from high school with a 3.0 GPA and ACT score of 21 or better. With the creation of the Promise program, the state legislature did not appropriate an increase for the state's need-based grant program this past year, the first time it declined to do so since the mid-1990s (Tuckwiller, 2002).[7] This resulted in over 1,000 students with demonstrated financial need being cut out of the program. While Promise is mandated to receive a $7 million increase this year, the governor has proposed a budget that cuts $2 million from the need-based aid program.

Other Trends in Student Financial Support

The rise of merit aid with its resulting implications for college access is part of a broader trend nationally that has placed more emphasis of meeting the college affordability needs of students from middle-income and wealthier families, rather than promoting college access for poorer students. These steps have been taken both by the federal government and state governments.

At the federal level, the Taxpayer Relief Act of 1997 created the Hope and Lifetime Learning tax credits, which provide up to $1,500 per year to taxpayers with incomes up to $100,000. Students can use the tax credit only to offset tuition and mandatory fees, and other financial aid must first be subtracted from these costs before the students or their parents can avail themselves of the tax credits. In addition, because they are a tax credit, they only benefit the student if she or her parents have a tax liability. Data from the Office of Management and Budget indicate that in the first year of the credits (1998), 50 percent of the $3.5 billion in Hope and Lifetime Learning tax credits were taken by taxpayers with adjusted gross income in excess of $50,000 (Hoblitzell and Smith, 2000). In contrast, over 99 percent of Pell Grant recipients had income below this level.

The newest and most popular student financing initiative at the state level, in addition to the creation of merit scholarship programs, has been the creation of Section 529 college savings programs and tuition prepayment programs. Section 529 savings programs are operated by the states and provide tax-deferred and tax-sheltered (federal and state) opportunities for accumulating funds to pay for college. The College Savings Plan Network, part of the National Association of State Treasurers, recently trumpeted the fact that these plans have spread to all 50 states (College Savings Plan Network, 2002). Assets in these plans have more than tripled in less than three years, from $6 billion to $19 billion (Arenson, 2002). Because these plans are so new, there is little data yet on who is taking advantage of them. But it is clear that, like tuition tax credits that only benefit taxpayers with a tax liability, college savings plans can only benefit those families who have discretionary income available to set aside for college. And the more that families put into these programs, the larger is the benefit, both in terms of the tax savings, as well as the sum that will have accumulated by the time the beneficiary is ready to attend college.

The final issue that affects state support for student aid is the challenges to the use of race and ethnicity in college admissions and financial aid that have arisen in a number of states. Two key federal district court decisions (*Hopwood v. State of Texas, 1996*, and *Podberesky v. Kirwan, 1994*) put severe restrictions on how public institutions in those districts could use race in making financial aid awards. In addition, referenda in California and Washington similarly restricted the use of race in admissions and financial aid decisions.[8] The impact of

7. While Promise provides full tuition at public institutions in the state (for example, $3,240 at West Virginia University in 2002-03), the state's need-based program provides a maximum grant of $1,800.
8. There is some debate in Washington regarding the interpretation of the referendum there (Initiative 200) with respect to financial aid awards (Murphy, Martinez, Affolter-Caine, and Heller, 2002).

these policy changes is to make it more difficult for public institutions to focus their own financial aid resources on minority students, who generally have the highest level of financial need.

Are There States That Demonstrate "Best Practices"?

While there is plenty of bad news regarding recent trends in state support of student financial aid, there are states that have maintained a commitment to using aid to promote equality of opportunity in higher education. In 1990, the Indiana legislature established the Twenty-first Century Scholars program "to help reduce the financial burden of higher education on low- to moderate-income Indiana students and their families" (Office of Twenty-first Century Scholars, no date). The program, modeled after the Eugene Lang "I Have a Dream" program, is unique among efforts by the states to address the academic preparation, social preparation, and financial aid needs of low-income youth within one program, while meeting the popular political calls for the use of "merit" in the awarding of financial aid.

Twenty-first Century Scholars has five key components:

1. It enlists students in the program early in their academic careers, while they are in seventh or eighth grade, thus giving them plenty of time to fulfill the academic requirements needed during their high school years to prepare them to be successful in college;
2. It provides tutoring, mentoring, and other support services to additionally help prepare the students;
3. It sets merit criteria—graduation from high school with a 2.0 grade point average and fulfillment of a pledge to abstain from alcohol and drug use—that are reasonable and achievable by students from a broad range of high schools, rich and poor, urban, rural, and suburban;
4. It makes a commitment to the students to provide up to eight semesters of full tuition at any Indiana public institution, no matter what it costs, as long as they fulfill the merit criteria;[9] and
5. It restricts the program to students who are truly needy—for example, an income cap of $32,653 for a family of four, well below the state median income of $42,000 (Office of Twenty-first Century Scholars, no date).

While all of these components are important, the targeting of the scholarships to only those students who are truly needy, is perhaps the most import part of the program. A recent evaluation of the program noted that before implementation of the program, Indiana ranked 40th nationally in the proportion of high school graduates who enroll in college. By 1998, the state had climbed to 17th (St. John, Musoba, Simmons, and Chung, 2002). While other factors helped explain this gain, the evaluation concluded that "Participation in the Scholars Program improved postsecondary opportunity for low-income students. This study confirms that the program played a role in the substantial gain in college access in the 1990s in Indiana. ...[it] represents a promising approach to addressing inequalities in educational opportunity" (p. 2).

Indiana is not alone in finding a way to maintain a commitment to the targeting of financial aid to students who need it to attend college, while meeting the calls for the use of merit criteria. Two years ago California sought to greatly increase funding for Cal Grants, its primary student aid program. While on paper the state had made a commitment to funding the full need for financial aid for poor students, it had never appropriated enough funds for the Cal Grant program to do this. Even so, the state had an overall college participation and educational attainment rate above the national average. Nevertheless, flush with cash in state coffers during the height of the economic boom, Governor Gray Davis proposed a new merit scholarship program that would be open to all students, regardless of family income. But the California legislature balked at his proposal, and instead, voted to more than double the size of the Cal Grant program over five years to $1.2 billion annually (twice the size of the nearest competitor, New York), while combining needs testing with a merit component. Students who earn at least a 3.0 grade point average and fit within the income and asset guidelines will qualify for full tuition at any public institution in the state (or up to $9,700 at a private institution). Students who can achieve only a 2.0 average can still qualify for a reduced amount of aid, up to $1,550 annually.

Indiana and California are two very different states, one with relatively low college participation, and one with a much higher rate. The two have taken different approaches to using financial aid to promote educational opportunity. Other states have chosen not to use their scholarship programs for this purpose, but instead, to use scarce resources to promote other ends.

9. Students are also eligible for the equivalent of public tuition at a private institution in the state.

Conclusion

The evidence is fairly conclusive regarding the recent trend toward the substitution of merit for financial need in the awarding of state scholarships. This practice for the most part subsidizes the college-going behavior of those students who were likely to attend postsecondary education even without the additional subsidy from taxpayers (or lottery players). It is likely to exacerbate, rather than reduce, existing gaps in college attendance between rich and poor, and between racial majority and minority students. One of the studies in The Civil Rights Project report concluded:

> It is safe to say that by placing a large paperwork burden on low-income youth, reducing their HOPE awards by any need-based aid, cutting state need-based grants, and raising public tuition prices, Georgia stacked the deck against low-income youth. …Georgia designed a merit program that was almost guaranteed to have little positive effect upon the schooling decisions of low-income youth, who are disproportionally black (Dynarski, 2002).

Other trends in student financing, at both the state and federal levels, have reinforced the shifting of public support up the income ladder.

Over the last decade, the awarding of merit scholarships without determination of financial need has grown from less than 10 percent of state spending on student aid, to 25 percent. A dozen states have implemented broad-based merit scholarship programs of this type, and the political popularity of these programs, especially among middle- and upper-income voters, has spurred other states to consider jumping on the bandwagon. Yet other states have maintained a commitment to aid awarded based on the financial need of the student and her family, thus choosing to use publicly funded financial aid for the purposes articulated in the Higher Education Act of 1965: to increase access to college and to promote equality of educational opportunity.

Policymakers have a choice to make regarding who will receive public assistance to attend college, and how that assistance will be provided. The current fiscal crisis facing most states, which is already resulting in double-digit tuition increases in many public institutions, will only make this challenge more critical. The decisions made by these policymakers are likely to impact which students are able to go to college, and which colleges they attend, for many years down the road.

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